

Message Text

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PAGE 01 ROME 11210 01 OF 02 081718Z
ACTION EUR-12

INFO OCT-01 ISO-00 TRSE-00 AID-05 CEA-01 CIAE-00
COME-00 EB-07 FRB-03 INR-07 NSAE-00 EPG-02 SP-02
STR-04 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01
L-03 NSC-05 PA-01 PRS-01 SS-15 USIA-06 AGRE-00
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-----107308 081825Z /46

R 081615Z JUL 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 5767
INFO AMEMBASSY BRUSSELS
AMCONSUL NAPLES
AMCONSUL MILAN
AMCONSUL GENOA
AMCONSUL FLORENCE

LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 11210/1

E.O. 11652: N/A
TAGS: ECON EFIN EINV ELAB PINT IT
SUBJ: MODERATE OPTIMISM IN THE NORTH

MILAN ALSO PASS TURIN

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SUMMARY. THREE-DAY VISIT AT END JUNE BY ECMIN TO TURIN AND
MILAN--AND MEETINGS WITH BUSINESS ASSOCIATION OFFICIALS,
BANKERS, BUSINESSMEN, ECONOMISTS AND MEDIA PERSONNEL--PRODUCED
MODERATELY OPTIMISTIC PICTURE OF POLITICAL/ECONOMIC SITUATION.
WHILE ALL CONTACTS EXPRESSED VARIOUS KINDS OF CONCERNS, CON-
SENSUS CLEARLY EXISTED THAT ECONOMIC SITUATION WAS MANAGEABLE
IN THE SHORT-TERM AND THAT CHRISTIAN DEMOCRATIC (DC) MINORITY
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PAGE 02 ROME 11210 01 OF 02 081718Z

GOVERNMENT WOULD REMAIN IN POWER IN COMING MONTHS. TWO OF ECMIN'S
USUALLY GLOOMY CONTACTS--ECONOMIC WEEKLY EDITOR AND LEADING
BANKDR--FOUND SOME GROUNDS FOR OPTIMISM, WHICH INDICATES
THAT SITUATION MAY BE IMPROVING. END SUMMARY.

1. VIRTUALLY ALL SOURCES WHO DISCUSSED POLITICAL SITUATION
BELIEVED THAT THERE WOULD BE NO SIGNIFICANT CHANGE IN THE COMING

MONTHS. DISCUSSIONS AMONG POLITICAL PARTIES ON "PROGRAMMATIC ACCORD" (SINCE CONCLUDED, SEE ROME 10930) WERE VIEWED BY INTER-LOCUTORS ESSENTIALLY AS MEASURES REQUIRED TO OVERCOME THE "MINI GOVERNMENT CRISIS". HOWEVER, DESPITE FRAGILITY OF MINORITY GOVERNMENT, NONE FORESAW THAT PRESENT GOVERNMENT WOULD BE OVERTURNED IN NEAR FUTURE. GENERAL SENTIMENT WAS ONE OF STOIC ACCEPTANCE OF "POLITICS AS USUAL". INTERESTINGLY ENOUGH, FEW SPOKE OF PUBLIC SECURITY PROBLEM, ALTHOUGH THOSE WHO DID SO VIEWED IT AS VERY REAL DANGER TO MAINTENANCE OF GOVERNMENT AND POLITICAL SYSTEM.

2. SOURCES' ASSESSMENT OF ITALIAN ECONOMY WAS ONE OF GENERAL SATISFACTION, TEMPERED BY SOME CONCERN OR UNCERTAINTY ABOUT COMING MONTHS. ECONOMIC ACTIVITY WAS RECOGNIZED AS HAVING MAINTAINED RELATIVELY HIGH LEVEL DURING FIRST FEW MONTHS OF 1977. MOST EXPECTED THAT THERE WOULD BE SOME DIMINUTION IN LEVEL OF ECONOMIC ACTIVITY DURING SECOND HALF OF 1977. HOWEVER, THEY VIEWED THIS WITH RELATIVE EQUANIMITY. PERHAPS INDICATIVE OF MORE OPTIMISTIC PERSPECTIVES WERE ASSESSMENTS OF EDITOR OF RESPECTED ECONOMIC WEEKLY AND ONE OF TOP ITALIAN BANKERS, BOTH SOURCES WHO IN PAST HAVE BEEN CONSISTENTLY BEARISH ON ECONOMIC SITUATION AND OUTLOOK. EDITOR CHARACTERIZED SITUATION AS IMPROVED BECAUSE OF (A) INCREASED UNDERSTANDING OF SITUATION BY LABOR COMBINED WITH FEAR, (B) SOME DIMINUTION OF DEMAND AND (C) IMPROVED PRODUCTIVITY. HOWEVER, HE ADDED CAVEAT THAT MAJOR QUESTIONS REMAINED OF (A) WHETHER PROGRESS, ESPECIALLY ON LIMITED OFFICIAL USE

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PAGE 03 ROME 11210 01 OF 02 081718Z

PRODUCTIVITY, WILL CONTINUE AS ECONOMY DECLINES IN SECOND HALF 1977 AND (B) WHETHER ACTION WILL BE TAKEN ON SOME OF STRUCTURAL PROBLEMS FACING ITALIAN ECONOMY. BANKER COMPARED SITUATION FAVORABLY WITH LAST FALL, SPECIFICALLY NOTING GREATLY INCREASED TAX COLLECTIONS, SOME PROGRESS ON COST OF LABOR AND REDUCTION IN ABSENTEEISM. HE, TOO, STRESSED, HOWEVER, THAT BASIC PROBLEMS, TO A LARGE EXTENT POLITICAL, REMAINED.

3. IN DISCUSSIONS ON TWO MAIN STRUCTURAL PROBLEMS OF GOVERNMENT EXPENDITURES AND COST OF LABOR, THERE WAS WIDESPREAD AGREEMENT THAT GOI WILL FIND IT VERY DIFFICULT TO CARRY OUT MEANINGFUL MEASURES: ON GOVERNMENT EXPENDITURE BECAUSE OF POLITICAL PRESSURES AGAINST REDUCTIONS, PARTICULARLY AT LOCAL LEVEL FROM THE LEFTIST PARTIES, AND ON COST OF LABOR BECAUSE OF UNLIKELIHOOD THAT FURTHER NEGOTIATIONS BETWEEN CONFINDUSTRIA AND LABOR CONFEDERATIONS CAN GO BEYOND LIMITED RESULTS ALREADY REACHED IN CONNECTION WITH FORMULATION OF GOI'S STABILIZATION PROGRAM. HOWEVER, THERE WERE INTERESTING EXCEPTIONS TO THIS MAJORITY VIEW: (A) TURIN PROFESSOR WHO ACTS AS ADVISOR TO GOI ON LOCAL FINANCE STATED THAT CONSIDERABLE PREPARATORY WORK ON LOCAL FINANCE QUESTION IS NEARING COMPLETION. HE EXPECTS THAT MEASURES WILL BE UNDERTAKEN IN NEXT FEW MONTHS TO CONSOLIDATE LONG-TERM DEBT OF

LOCAL GOVERNMENTS (ACCOUNTING FOR ABOUT 80 PERCENT OF OUT-
STANDING DEBT OF \$30 BILLION) AND TO ENABLE LOCAL GOVERNMENTS TO
EXPAND CONSIDERABLY THEIR TAXATION AUTHORITY (PRESUMABLY NEW TAXES
IN REAL ESTATE AREA).

(B) INDUSTRIAL ASSOCIATION OFFICIAL, WHO PREVIOUSLY SERVED AS
CONFINDUSTRIA VICE PRESIDENT IN CHARGE OF LABOR RELATIONS,
BELIEVES THAT, ALTHOUGH IT WILL NOT BE POSSIBLE TO ADJUST
SCALA MOBILE (WAGE ESCALATOR) MECHANISM, UNIONS WILL BE WILLING
TO TAKE OTHER STEPS. SPECIFICALLY, HE MENTIONED LIMITING TERMINI-
ATION PAYMENTS (AS RECENTLY PROPOSED BY COMMUNIST LABOR LEADER
LAMA) AND ELIMINATING APPLICATION OF SCALA MOBILE TO SENIORITY
INCREASES (APPARENTLY FAVORED BY ALL THREE MAJOR UNION LEADERS).

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PAGE 01 ROME 11210 02 OF 02 081754Z
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R 081615Z JUL 77
FM AMEMBASSY ROME
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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 11210/2

4. INTERLOCUTORS WERE NEARLY UNANIMOUS IN ACCEPTING PREVAILING
BELIEF THAT ITALY'S ECONOMIC SALVATION LIES TO CONSIDERABLE EX-
TENT IN RAPID EXPANSION OF EXPORTS. SIMILARLY, THERE WAS
CONSENSUS THAT ITALY'S 1976 EXPORT PERFORMANCE HAD BEEN GOOD,
AIDED NOT INSIGNIFICANTLY BY DEVALUATION OF LIRA. WHILE ALL
AGREED THAT ITALY WOULD NOT BENEFIT FROM SIMILAR PHENOMENON IN
1977, THERE WAS GENERALLY OPTIMISTIC FEELING ABOUT LEVEL OF
1977 EXPORTS. ONLY SOLID INDICATOR WAS STATEMENT BY MILAN BANKER
THAT DEMANDS FOR EXPORT FINANCING HAD REMAINED AT SAME HIGH
LEVEL AS LAST YEAR.

5. DISCUSSIONS OF INVESTMENT SITUATION WERE RELATIVELY UP-BEAT.

WHILE ALL AGREED THAT "NO ONE" IS INVESTING IN EXPANDED FACILITIES, MOST SOURCES AGREED THAT ITALIAN INDUSTRY WAS CONTINUING PROCESS OF INVESTMENT IN RENEWAL AND MODERNIZATION OF EXISTING PLANT AND EQUIPMENT. THUS, GENERAL CONSENSUS WAS THAT ITALIAN INDUSTRY WAS MAINTAINING ITS COMPETITIVE POSITION. TWO SPECIFIC FAVORABLE REFERENCES TO SITUATION WERE QUOTE OF LIMITED OFFICIAL USE

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PAGE 02 ROME 11210 02 OF 02 081754Z

STATEMENT BY CONFINDUSTRIA PRESIDENT CARLI THAT ITALIAN INDUSTRY WAS AS MODERN AS THAT OF FRANCE AND FRG AND REFERENCE TO RECENT STUDY WHICH CONCLUDED THAT ITALIAN TEXTILE INDUSTRY WAS AS MODERN AS THOSE OF ALL OTHER COUNTRIES EXCEPT FRG.

6. A FEW SOURCES DISCUSSED ROLE OF PUBLIC SECTOR INDUSTRY. IN PARTICULAR, ONE ECONOMIST AND ONE MEMBER OF MILAN'S FINANCIAL COMMUNITY ASSERTED THAT PENDULUM IS BEGINNING TO SWING BACK FROM PUBLIC SECTOR TO PRIVATE SECTOR. IN SUPPORT FOR THIS VIEW THEY MENTIONED (A) THREE CASES OF PRIVATE SECTOR ATTEMPTS, WHICH MAY WELL BE SUCCESSFUL, TO PURCHASE, OR RE-PURCHASE, INDUSTRIES FROM THE PUBLIC SECTOR; (B) RECENT DISSOLUTION OF PUBLIC SECTOR MINERALS/FINANCIAL HOLDING COMPANY EGAM, WHICH WILL INVOLVE DISSOLUTION OF SOME COMPANIES, BANK LOSSES AND FIRING OF SOME EXECUTIVES; AND (C) MORE GENERALLY, LIMITS NOW BEING PLACED ON FINANCIAL RESOURCES AVAILABLE TO PUBLIC SECTOR.

7. DISCUSSION OF LABOR SITUATION REVOLVED LARGELY AROUND PLANT-LEVEL NEGOTIATIONS NOW UNDER WAY, PARTICULARLY PROBLEMS ENGENDERED BY INCREASING INDEPENDENCE OF PLANT-LEVEL LABOR LEADERS FROM NATIONAL UNION LEADERSHIP. WHILE SOME SOURCES FELT THAT THIS DEVELOPMENT HAD SLOWED DOWN NEGOTIATIONS, E . IN CASE OF FIAT (AGREEMENT NOW CONCLUDED) WHERE COMPANY MANAGEMENT REPORTEDLY UNCERTAIN AS TO WHO WAS REALLY RESPONSIBLE INTER-LOCUTOR, OTHERS BELIEVED MAIN RESULT WAS WEAKENED UNIONS, WHICH WAS IN MANAGEMENT'S INTEREST. THERE WAS GENERAL AGREEMENT THAT NET RESULT IN ANY CASE WAS MORE TRUCULENT ATTITUDE ON UNION'S PART IN NEGOTIATIONS, WITH MAJOR FOCUS OF INTEREST ON SECURITY OF EMPLOYMENT AND MANAGEMENT'S INVESTMENT PLANS.

8. ECMIN ASKED BANKERS TO COMMENT ON WHETHER ITALY, PARTICULARLY NOW THAT STANDBY AGREEMENT CONCLUDED WITH IMF, ENJOYED ENHANCED REPUTATION IN INTERNATIONAL FINANCIAL COMMUNITY. CONSENSUS LIMITED OFFICIAL USE

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PAGE 03 ROME 11210 02 OF 02 081754Z

WAS THAT ITALY'S IMAGE HAD IMPROVED SOMEWHAT. SIGNIFICANCE OF IMF STANDBY WAS SEEN AS RELATIVELY LIMITED. CLEARLY FAILURE TO HAVE COME TO TERMS WITH IMF WOULD HAVE HAD MEASURABLE NEGATIVE

IMPACT. HOWEVER, IMPROVEMENT IN CLIMATE WAS LINKED MORE TO IMPROVED ECONOMIC SITUATION. SPECIFIC FACTORS MENTIONED WERE GOOD ECONOMIC PERFORMANCE IN 1976, SIGNS OF IMPROVEMENT IN INFLATION LEVEL AND BALANCE OF PAYMENTS, CONTINUED STABILITY OF LIRA AND RECENT DECLINE IN INTEREST RATES. CAPITAL FLIGHT WAS SEEN AS LESS OF PROBLEM THAN IN EARLIER YEARS BECAUSE OF DECREASED AVAILABILITY OF LARGE SUMS FOR EXPORT, HIGH RATES OF INTEREST IN ITALY, AND INTRODUCTION OF CRIMINAL PENALTIES FOR OFFENSES. GARDNER

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Executive Order: N/A
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